

Poor performance due to inventory loss; long-term outlook better. Maintain Accumulate

PLL Q4FY19 revenue and profitability were below our estimates, due to lower off-take from the Dahej terminal. The volume was 205 TBTU for Q4FY19, while profits were impacted by an inventory loss of ₹ 119 crore. Spot price of natural gas has fallen from \$8.5 per mBtu at beginning of quarter to \$4.3 per mBtu. This loss was a notional loss as per the IndAS valuation of inventory for the quarter. The Dahej terminal's capacity utilization continues to be 104%. The Kochi terminal's utilization remains low at 10% and is only expected to improve after the completion of the Kochi-Mangalore pipeline in June 2019.

Given gradual capacity addition and increase in re-gasification margins, PLL will ride the gas demand evolution of India. PLL is poised to benefit from the gas demand. We believe the stock should be re-rated, after the completion of pipelines for the Kochi terminal. We reiterate our Accumulate recommendation, with a target price of ₹ 249.

Dahej – high capacity utilization continues

During Q4FY19, the Dahej Terminal operated at 104% of its nameplate capacity and processed LNG quantities of 199 TBTU. We expect volumes to rise from Dahej, when the enhancement of additional 2.5MMTPA capacity is complete. The high utilization limits an increase in volume offtake from the Dahej terminal till new capacity comes on stream. PLL plans to add two storage tanks at Dahej and a Jetty in 3-4 years, which will take the capacity of the Dahej terminal to 19.5 MMTPA.

Kochi's low utilization continues to drag

The Kochi terminal utilization was dismal due to the lack of pipeline connectivity. The Kochi-Mangalore section pipeline is expected to be ready by June 2019. The capacity utilization of Kochi terminal after completion should boost earnings. The volume at the Kochi terminal was 6 TBTU, which is a capacity utilization of 10%. We do not foresee any major change in the utilization before H2FY20E.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	83,832	86,362	(2.9)	1,00,977	(17.0)
Total Expense	77,560	78,142	(0.7)	92,497	(16.1)
EBITDA	6,272	8,221	(23.7)	8,481	(26.0)
Depreciation	1,016	1,013	0.3	1,037	(2.0)
EBIT	5,256	7,208	(27.1)	7,444	(29.4)
Other Income	1,514	1,034	46.4	884	71.2
Interest	225	335	(32.7)	215	4.5
EBT	6,545	7,908	(27.1)	8,113	(19.3)
Tax	2,143	2,681	(20.1)	2,460	(12.9)
RPAT	4,402	5,227	(15.8)	5,653	(22.1)
APAT	4,402	5,227	(15.8)	5,653	(22.1)
			(bps)		(bps)
Gross Margin (%)	10.1	11.5	(141)	9.9	18
EBITDA Margin (%)	7.5	9.5	(204)	8.4	(92)
NPM (%)	5.3	6.1	(80)	5.6	(35)
Tax Rate (%)	32.7	33.9	(116)	30.3	242
EBIT Margin (%)	6.3	8.3	(208)	7.4	(110)

CMP	₹ 224
Target / Upside	₹ 249 / 11%
BSE Sensex	37,066
NSE Nifty	11,157

Scrip Details

Equity / FV	₹ 15,000mn / ₹ 10
Market Cap	₹ 336bn
	US\$ 5bn
52-week High/Low	₹ 255/₹ 202
Avg. Volume (no)	26,06,820
NSE Symbol	PETRONET
Bloomberg Code	PLNG IN

Shareholding Pattern Mar'19(%)

Promoters	50.0
MF/Banks/FIs	11.0
FII	26.0
Public / Others	13.0

Valuation (x)

	FY19A	FY20E	FY21E
P/E	15.6	15.5	13.7
EV/EBITDA	9.3	9.6	8.3
ROE (%)	21.8	20.8	22.0
RoACE (%)	28.1	26.4	26.7

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	3,83,954	3,92,333	4,19,748
EBITDA	32,935	31,745	35,447
PAT	21,554	21,698	24,569
EPS (₹)	14.4	14.5	16.4

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Cash annuity model – looking for new avenues

We have long term positive view on the stock, as additional capacity of 2.5 MMTPA will be added by June 2019 in the Dahej terminal and completion of the pipeline connectivity in the Kochi terminal will resolve gas evacuation issues. The regasification margins is likely to sustain, and volumes will see an uptrend in the long term. PLL is generating significant cash and is in advance stage of doing investments in Sri Lanka. The risk to our analysis is any dilution in return ratios from this investment.

Valuation

Volume growth has been impacted in the short term due to the industrial slowdown. We believe volume outlook should improve in the next two quarters. The continuous increase in re-gasification margins every year will enable PLNG to maintain its growth trajectory. The valuations are justified by PLNG's unique business model and lack of an increase in domestic gas supply. With no risk in gas prices, PLNG will continue to generate significant cash year after year, driven by capacity expansion and an increase in re-gasification margins. We reiterate our Accumulate recommendation, with a target price of ₹ 249. (DCF Method)

Key highlights

- Revenue decreased 2.9% YoY to ₹ 83.8 bn. On a sequential basis, there was a de-growth of 17%.
- The de-growth in raw material cost was 1.4% YoY to ₹ 75,387 bn. On a sequential basis, it was a de-growth of 17%.
- There was a growth in employee cost of 33.9% YoY and a growth of 28% on sequentially to ₹ 340 mn.
- Other expenditure increased 27.4% YoY to ₹ 1,833 mn. Sequentially it was up 47.6%.
- The operating profit was ₹ 6,272 mn in Q4FY19, as compared to ₹ 8,221 mn in Q4FY18.
- The depreciation was down sequentially to ₹ 1,016 mn.
- The other income was ₹ 1,514 mn, which was a growth of 46.4% YoY and 71.2% QoQ.
- Net profit was ₹ 4,402 mn in Q4FY19, as compared to ₹ 5,527 mn in Q4FY18, showing a de-growth of 15.8% YoY.

Conference Call KTA's

- In FY19, total LNG processed was 844 tbtu, as against 848 tbtu in FY18.
- The volumes in Q4FY19 was lower at 205 tbtu, as compared to 213 tbtu in Q4FY18 and 202 tbtu in Q3FY19. The capacity utilization for Q4FY19 was 81%, as compared to 79% in Q3FY19.
- There was substantial inventory volumes and price fluctuations in Q4FY19.
- The profits in Q4FY19 was hit by an inventory loss of ₹ 119 crore. The spot price of natural gas has fallen from US\$8.5 per mBtu in the beginning of the quarter to US\$4.3 per mBtu. This loss was a notional loss as per the valuation of inventory for the quarter as per IndAS. (notional loss will be recovered in future). From April 2019, notional loss recovered was ₹ 30 crore, as the current spot price is US\$5.37 per mBtu.
- There was a hit in volumes for Q4FY19, as a few fertilizer plants were shut in March quarter and also IOC's Paniput refinery and Koyali refinery were shutdown. The volumes in the Q1FY20 will be higher, as the Dabhol terminal will be shut and volumes will be moved to the Dahej terminal.
- Net cash on the books was ₹ 4,575 crore.
- Regas service income for Q4FY19 was ₹ 437 crore.
- Gross Debt was ₹ 700 crore.
- There was no take or pay in Q4FY19.
- Exxon's contract is expiring in 2035 and contract with Rasgas is expiring in 2027-2028.
- Total long term volume in FY19 was 437 tbtu, spot volumes were 23 tbtu. Spot volumes were 5% of total volumes. Total handling of cargos in FY19 was 270-280 cargos. Out of which 5-6 cargoes were spot volumes and rest were tied up.

Dahej Terminal:

- In FY19, Dahej terminal processed the highest ever LNG of 820 tbtu, as against 816 tbtu in FY18.
- The volumes in Dahej were 199 tbtu in Q4FY19, as compared to 207 tbtu in Q4FY18 and 197 tbtu in Q3FY19. The terminal operated at a capacity utilization of 104% in Q4FY19, as compared to 103% in Q3FY19.
- Dahej capacity enhancement of 2.5 MMTPA is expected to be completed by June 2019, which will take the total capacity of Dahej to 17.5 MMTPA.
- Currently there are six tanks at Dahej. Two tanks are under tendering, which will be completed in a month or so. Two tanks will be set up in 36 months by H2FY2022, which will enhance the regasification capacity at Dahej to 19.5 MMTPA.
- The current tariff at Dahej is ₹ 49.6 mBtu.

Kochi Terminal:

- The Kochi terminal had a dismal performance, with volumes at 6 tbtu in Q4FY19. The terminal operated at a capacity utilization of 10% in Q4FY19, as compared to 8% in Q3FY19.
- There is some delay in the work of Kochi pipeline. It is now expected to be complete by June 2019. The current utilization is 10%, after the pipeline is completed, utilization is expected to go up to 25%-30%.

- Tariffs were hiked by 5% in Kochi, which is a usual practice. The current tariff is ₹ 104.5 mBtu.

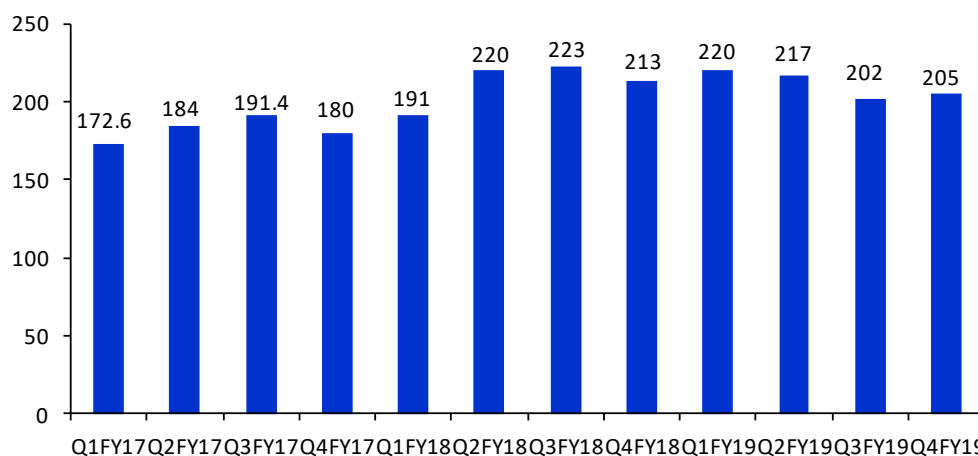
International projects

- PLNG is in discussion with Sri Lankan Government for setting up FSRU terminal in Sri Lanka. The draft agreement and JV agreements are submitted. The capacity of this terminal will be 2.5 MMTPA, which will require an investment of US\$300 mn (i.e., ₹ 2000 crore).
- The Bangladesh project has recently been awarded through tendering process. PLNG is not eager on that project and the decision of setting up terminal in Bangladesh is pending. It will require an investment of ₹ 6,000-7,000 crore.
- PLNG is planning to acquire a stake in the liquefaction terminal in US or other countries. The company is in talks with several people, but not yet finalized anything. The main objective for this acquisition is to source LNG at reasonable, attractive, and fixed price to India. (i.e. less than US\$6 per mBtu). It plans to source LNG at lower prices for the long term.

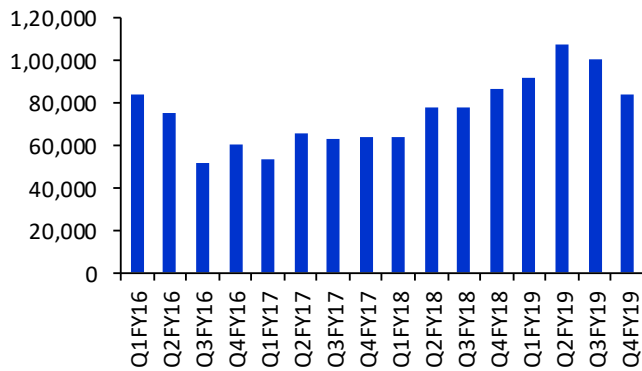
Capex:

- The capex plans for FY20 is ₹ 600 crore. (Including ₹ 200 crore for two tanks at Dahej).
- The capex plans for FY21 is ₹ 1,300 crore, which includes setting up a new jetty.

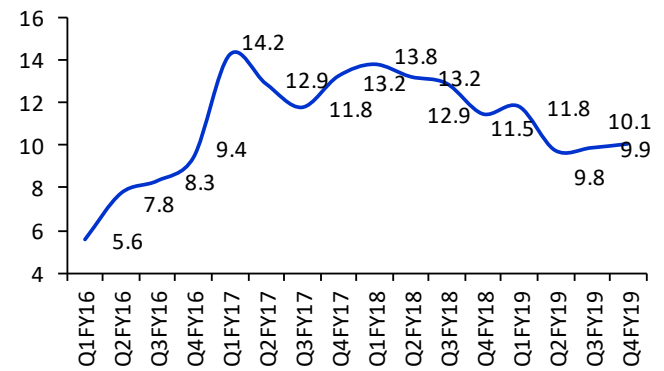
Exhibit 1: Volumes (tbtu)



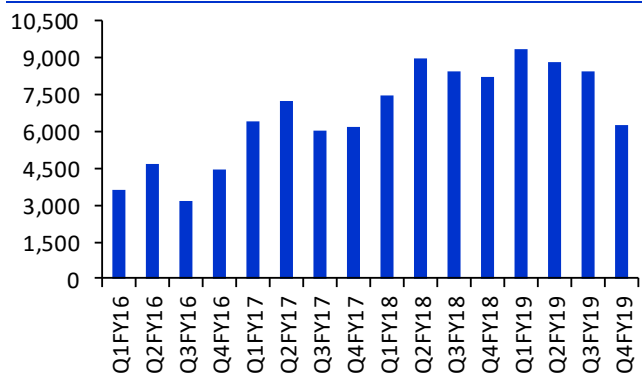
Source: Company, DART

Exhibit 2: Revenue (₹ Mn)


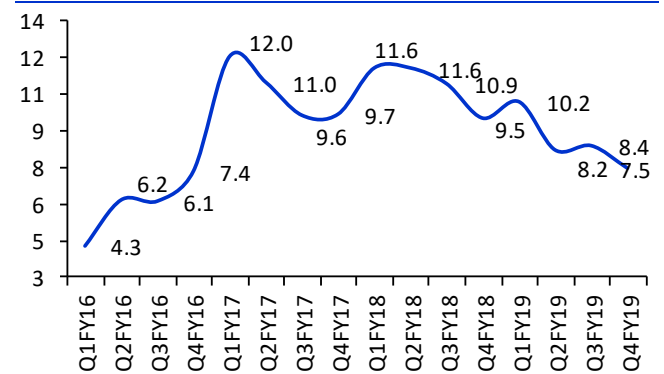
Source: Company, DART

Exhibit 3: Gross Margin (%)


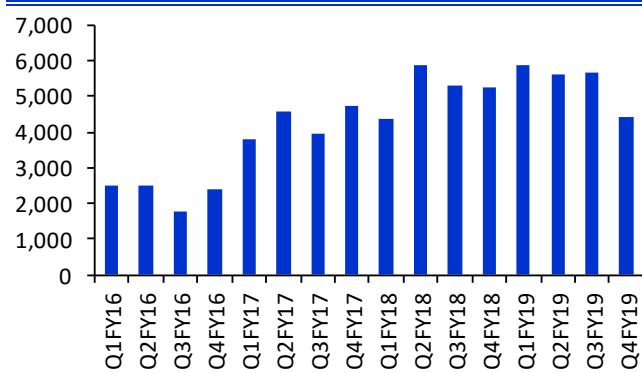
Source: Company, DART

Exhibit 4: Operating Profit (₹ Mn)


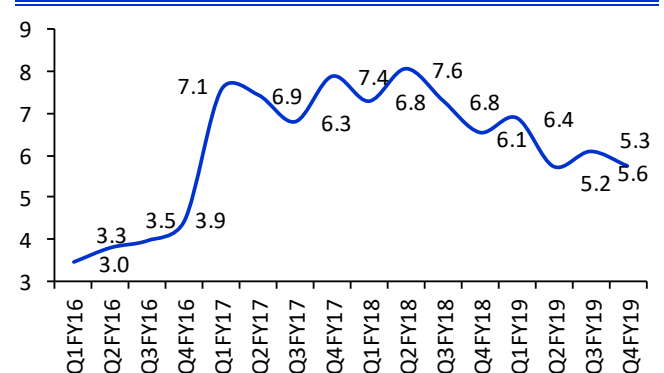
Source: Company, DART

Exhibit 5: OPM (%)


Source: Company, DART

Exhibit 6: Net Profit (₹ Mn)


Source: Company, DART

Exhibit 7: NPM (%)


Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	3,05,986	3,83,954	3,92,333	4,19,748
Total Expense	2,72,863	3,51,020	3,60,589	3,84,300
COGS	2,66,902	3,44,170	3,52,774	3,75,704
Employees Cost	912	1,259	1,385	1,523
Other expenses	5,049	5,592	6,430	7,073
EBIDTA	33,124	32,935	31,745	35,447
Depreciation	4,117	4,112	4,210	4,322
EBIT	29,007	28,822	27,535	31,125
Interest	1,630	989	600	450
Other Income	3,174	4,503	5,450	5,995
Exc. / E.O. items	0	0	0	0
EBT	30,551	32,336	32,385	36,670
Tax	9,773	10,782	10,687	12,101
RPAT	20,779	21,554	21,698	24,569
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	20,779	21,554	21,698	24,569

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	15,000	15,000	15,000	15,000
Minority Interest	0	0	0	0
Reserves & Surplus	82,205	85,661	93,318	1,00,188
Net Worth	97,205	1,00,661	1,08,318	1,15,188
Total Debt	14,531	1,012	11,254	11,255
Net Deferred Tax Liability	10,482	13,360	14,964	16,759
Total Capital Employed	1,22,217	1,15,033	1,34,536	1,43,202

Applications of Funds

Net Block	80,296	76,651	84,318	79,997
CWIP	2,203	3,482	4,021	4,021
Investments	1,645	9,893	1,000	1,000
Current Assets, Loans & Advances	72,393	60,823	82,104	95,091
Inventories	4,911	5,694	6,974	8,037
Receivables	16,505	13,825	22,532	25,258
Cash and Bank Balances	8,625	29,603	42,067	52,319
Loans and Advances	2,217	11,190	10,071	9,064
Other Current Assets	557	511	460	414
Less: Current Liabilities & Provisions	34,321	35,815	36,907	36,907
Payables	15,699	15,856	16,332	16,822
Other Current Liabilities	18,622	19,959	20,575	20,085
Net Current Assets	38,073	25,007	45,197	58,184
Total Assets	1,22,217	1,15,033	1,34,536	1,43,202

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	12.8	10.4	10.1	10.5
EBIDTA Margin	10.8	8.6	8.1	8.4
EBIT Margin	9.5	7.5	7.0	7.4
Tax rate	32.0	33.3	33.0	33.0
Net Profit Margin	6.8	5.6	5.5	5.9
(B) As Percentage of Net Sales (%)				
COGS	87.2	89.6	89.9	89.5
Employee	0.3	0.3	0.4	0.4
Other	1.7	1.5	1.6	1.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.1	0.1
Interest Coverage	17.8	29.1	45.9	69.2
Inventory days	6	5	6	7
Debtors days	20	13	21	22
Average Cost of Debt	8.9	12.7	9.8	4.0
Payable days	19	15	15	15
Working Capital days	45	24	42	51
FA T/O	3.8	5.0	4.7	5.2
(D) Measures of Investment				
AEPS (₹)	13.9	14.4	14.5	16.4
CEPS (₹)	16.6	17.1	17.3	19.3
DPS (₹)	4.5	10.0	8.0	10.0
Dividend Payout (%)	32.5	69.6	55.3	61.1
BVPS (₹)	64.8	67.1	72.2	76.8
RoANW (%)	23.3	21.8	20.8	22.0
RoACE (%)	27.7	28.1	26.4	26.7
RoAIC (%)	26.3	29.0	31.0	34.0
(E) Valuation Ratios				
CMP (₹)	224	224	224	224
P/E	16.2	15.6	15.5	13.7
Mcap (₹ Mn)	3,36,000	3,36,000	3,36,000	3,36,000
MCap/ Sales	1.1	0.9	0.9	0.8
EV	3,02,327	3,07,409	3,05,187	2,94,936
EV/Sales	1.0	0.8	0.8	0.7
EV/EBITDA	9.1	9.3	9.6	8.3
P/BV	3.5	3.3	3.1	2.9
Dividend Yield (%)	2.0	4.5	3.6	4.5
(F) Growth Rate (%)				
Revenue	24.3	25.5	2.2	7.0
EBITDA	27.8	(0.6)	(3.6)	11.7
EBIT	30.5	(0.6)	(4.5)	13.0
PBT	29.4	5.8	0.2	13.2
APAT	21.8	3.7	0.7	13.2
EPS	21.8	3.7	0.7	13.2

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	29,956	23,523	20,385	28,402
CFI	(11,266)	29,584	(3,523)	(1)
CFF	(13,347)	(32,058)	(4,398)	(18,149)
FCFF	28,204	21,777	7,969	28,401
Opening Cash	3,210	8,553	29,603	42,067
Closing Cash	8,553	29,603	42,067	52,319

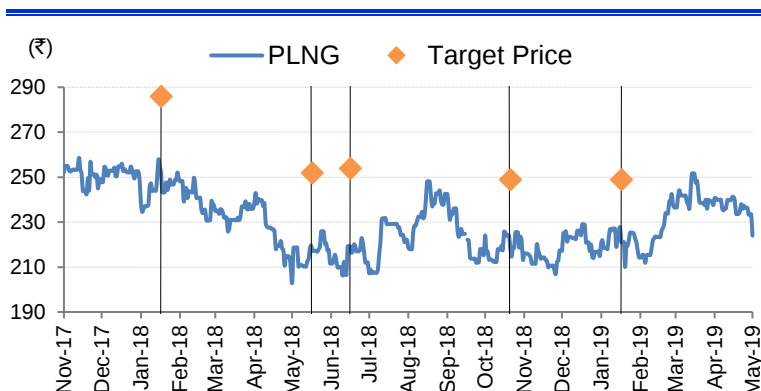
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Accumulate	286	252
Jun-18	Accumulate	252	217
Jul-18	Accumulate	254	219
Nov-18	BUY	249	218
Feb-19	BUY	249	221

*Price as on recommendation date

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